A REPORT OF THE

TASK FORCE ON NGO STATISTICS

AND SOCIAL AUDITING

CONTENT

I.   INTRODUCTION

The study of the Third Sector is an increasingly important policy research area as noted in the 2000 Policy Address by the Chief Executive of the Hong Kong Government. Recent research works commissioned by the Central Policy Unit as well as research undertaken by other private bodies have started to yield useful results. However, much remain to be done to further the understanding of the NGO sector in Hong Kong. The Task Force on NGO Statistics and Social Auditing aims to continue this NGO research effort by focusing its attention on two issues, namely, the desirability and feasibility of a centralized NGO database and the improvement of public accountability of NGO through the creation of a unified social auditing system.

This Report is a summary of the work and recommendations of the Task Force and its two Working Groups - the Working Group on NGO Statistics and the Working Group on NGO Social Auditing. An Executive Summary of this Report is included in Section II below. Background to the formation of the Task Force and its two Working Groups is laid out in Section III, while the deliberations and recommendations of the Working Groups are summarized in Sections IV and V, respectively. Finally a look at the follow up steps to the Task Force is included at Section VI below.

II.   EXECUTIVE SUMMARY

The Task Force on NGO Statistics and Social Auditing is organized by the Hong Kong University Centre for Civil Society and Governance ("CCSG"), in partnership with the Hong Kong Council of Social Service ("HKCSS") and sponsored by the Asia Pacific Philanthropy Consortium ("APPC"). The goal of the Task Force and its two Working Groups is to provide a forum for dialogue on the issues of better accountability and governance of NGOs in Hong Kong.

The Working Group on NGO Statistics focused on the study of the desirability and feasibility of a centralized NGO database. The Working Group started out by

reviewing the current data/statistics collection and reporting practices among NGOs in Hong Kong. It is found that while NGOs regularly submit data and reports to various Government Departments and funding organizations, such submissions are largely to satisfy the registration, regulatory and funding requirements, rather than to enhance public accountability. The Working Group then conducted a Survey to obtain a more comprehensive picture of the data/ statistics collection practices and reporting requirements of the Government and selected funding organizations. The Survey found that even though various Government departments are receiving a sizable amount of data and reports from NGOs, there is a lack of interdepartmental and intra-departmental coordination as to the types of information collected and how the information can be used. Generally, there is also a lack of public availability of data and reports collected by the Government and funding organizations.

The Working Group found that the achievement of improved NGO sector data/statistics availability and if feasible, a comprehensive centralized NGO database will be beneficial to the Government, the funding organizations, the donating corporations and public, as well as the NGO community. The Working Group considered a variety of centralized NGO database alternatives and finally recommended that a NGO-led database initiative will have the best chance of success. It is recommended that the current database used by the HKCSS in compiling their Directory of Social Service Organizations be used as basis for developing a data template for a social welfare sector centralized database. A website can be set up so that HKCSS' member agencies can upload their data and reports to the centralized database for public access. At a second stage, the scope of information included in the database can be extended to cover other data, such as evaluative data in the form of output and performance indicators. Once the database is established, it can be expanded to include social welfare NGOs that are not member agencies of HKCSS and to other NGO sectors.

On the Government side, the Working Group recommended working with the Inland Revenue Department and the Home Affairs Bureau to enhance public accountability of exempt charitable organizations and to initiate necessary changes within the Government regarding NGO data and reporting practices. Specifically, it is recommended that the IRD consider making public disclosure of certain

data/information by the applying NGO a condition for granting tax exemption. It is also recommended that the IRD consider enhancing the oversight of the tax exempt organizations by increasing the frequency of tax exempt status review.

The Working Group on NGO Social Auditing reviewed the current accountability mechanisms used by NGOs in Hong Kong and found that most NGOs are required to undertake comprehensive evaluation and reporting for fulfilling the funding provider's requirements. Such reports are usually not available to the public. The lack of publicly accessible information is especially acute in the fundraising area. The Working Group's discussion focused on the issue of how to enhance NGO accountability towards the public through a social auditing mechanism, as opposed to the current practice of reporting mainly to the funding providers.

The Working Group noted that the benefits of a social auditing mechanism to a NGO can be manifold. First, the external accreditation of a NGO enhances its public reputation and consequently helps in its fundraising. Second, social auditing is a useful tool of accountability, allowing views of various stakeholders, including the public and service recipients, to be considered in the development of performance indicators and organizational goals. Third, an external social auditing accreditation is an expression of recognition and a powerful motivational force to the NGO and its staff. The Working Group noted the need for a social auditing system will likely vary among different NGOs and donors. Small or medium size NGOs will likely benefit more from the fundraising potential of some form of social auditing mechanism. In addition, individual public donors will likely find a social auditing system useful in providing the necessary information about a target NGO and improving their confidence in making donations.

The Working Group considered a variety of social auditing mechanisms and found a NGO-led self regulatory effort be most preferable. It is recommended a phased approach be adopted to develop a social auditing system, with the first stage devoted to the setting of common standards of accountability. Once the accountability standards are set, NGOs can be invited to pledge to comply with the standards within a certain period. In the second stage, NGOs can be invited to conduct self assessment and self-certification. Once a NGO self certifies to have

complied with the standards, it can apply to become a member of the system. Results of the assessment and certification can be published in standard format with wide public availability, through publication or the internet. Finally, after the NGOs and the public are familiar with the system, an external accreditation tool, such as a Quality-mark like system, can be introduced under which a NGO may secure the right to use the mark if they are assessed to have complied with the system's accountability and other requirements. Finally the Working Group recommended that a Steering Committee be set up to seek funding to develop and implement the proposed social auditing system and generate support within and outside the NGO sector.

III.   BACKGROUND TO THE TASK FORCE

1.   Set up of the Task Force and Working Groups

The Task Force on NGO Statistics and Social Auditing is set up by the Hong Kong University Centre for Civil Society and Governance, in partnership with the Hong Kong Council of Social Service and sponsored by the Asia Pacific Philanthropy Consortium. The APPC is an informal network of grantmaking philanthropic organizations that support the growth and development of philanthropy in the Asia Pacific region. The APPC commissioned the CCSG to undertake a project focusing on non-profit governance, accountability and reporting. As a result, the Task Force on NGO Statistics and Social Auditing was created, with two Working Groups thereunder – the Working Group on NGO Statistics and the Working Group on Social Auditing.

The Task Force provides a valuable opportunity for networking and sharing of experience among various parties interested in the development of the NGO sector in Hong Kong. Academics, management consultants and accounting professionals interested in the field of NGO study, representatives of large and small NGOs, funding organizations, as well as NGO umbrella organization, were invited to participate in the Task Force on a voluntary basis. Representatives from various government departments also participated as observers. A list of the participants and observers is attached at APPENDIX 1.

2.   The Goal and Work of the Working Group on NGO Statistics

The goal of the Working Group on NGO Statistics is to review the existing statistics and data collection practices and reporting requirements among NGOs in Hong Kong, to consider ways to improve the quality and availability of statistics and data about the NGO sector, and to examine the feasibility of creating a more comprehensive database and reporting framework. The first meeting of the Working Group was held in October 2004. Current government and non government efforts in NGO statistics/data collection as well as reporting requirements were reviewed. The value of a centralized NGO database and selected international models of NGO database were considered. Following the meeting, a survey questionnaire was sent to various government departments, funding organizations and NGO umbrella organization to gather further details about their data collection practices and reporting requirements. At its second meeting held in January 2005, the Working Group reviewed the survey results; deliberated on ways to improve the data availability; and considered the feasibility of creating an integrated and publicly accessible database. Details of the deliberations and recommendations are set out in Section IV below.

3.   The Goal and Work of the Working Group on NGO Social Auditing

The goal of the Working Group on NGO Social Auditing is to examine the current accountability practices among NGOs in Hong Kong, to consider the feasibility of adopting unified social auditing standards, and to evaluate the new governance and accountability initiatives developed by the HKCSS and the Hong Kong Government.   The first meeting of the Working Group was held in November 2004. Current accountability practices among NGOs in Hong Kong were reviewed. The need and value of a unified social auditing system was also considered.   At the second meeting of the Working Group held in January 2005, the feasibility of creating a unified social auditing system among NGOs in Hong Kong was discussed. Examples of social auditing system adopted overseas were also considered. Details of the deliberations and recommendations are set out in Section V below.

IV. TOWARD A CENTRALIZED NGO DATABASE

1. Current NGO Reporting and Data/statistics Collection Practices

At present, various Hong Kong government departments compile NGO registries and in some instances collect reports from NGOs under their purview. The Working Group on NGO Statistics noted that the current trend is to minimize government regulation and control over NGOs and the data and reports gathered by the departments are simplifying and decreasing. Departments are also facing resistance from the NGOs when requesting additional information or data.

In addition to government departments, other public agencies such as the Hong Kong Arts Development Council also maintain registers of non profit organizations in their areas. Other semi-public charitable funding organizations such as the Community Chest and the Hong Kong Jockey Club Charities Trust, as well as private charitable foundations also maintain their own list of recipient organizations.

The NGO data collected by these departments and organizations are prepared in various formats and some are only partially available to the public for information or research purposes. The lack of uniform format makes it difficult to compare information between two NGOs. It is also difficult to ascertain what information is publicly available unless a specific request is made to the particular department or organization concerned. NGOs may be required to submit different types of data to different departments and funding organizations. Such duplicated efforts increase the cost of compliance by the NGOs. A centralized NGO database may minimize the duplication and help create a more efficient reporting system.

The quality of data and report submitted also varies among different NGOs, depending on the resources available. Generally, financial accounting information are prepared according to the standards set by the Hong Kong Institute of Certified Public Accountants and while audits are prepared according to customary audit standards. The quality issue lies mostly outside the financial/audit area, such as multiple reporting to different funding organizations using same activities/projects and the lack of evaluative assessments such as output and performance indicators.

Currently, NGO submitted data and reports are largely to satisfy the registration, regulatory and funding requirements of the Government and funding organizations. Public disclosure of information and data to enhance accountability of the NGO sector is still not a widely held concept. However, with Government subvention now emphasizes more on a NGO's ability to raise matching fund and major funding organizations requiring increasing cost effectiveness from the NGOs, the concept of transparency and public accountability will become increasingly important.

2.   A Survey on NGO Reporting and Data/statistics Collection Practices

In order to obtain a more comprehensive picture of the types of NGO reports as well as data/statistics collected by the Government and selected funding organizations, a factual survey was conducted in November 2004. A questionnaire had been sent to the following government bureaux/departments and organizations:

Census & Statistics Department
Companies Registry
Education and Manpower Bureau
Health Department
Home Affairs Bureau
Inland Revenue Department
Labour Department
Police Department
Social Welfare Department
The Hong Kong Jockey Club Charities Trust
The Community Chest of Hong Kong
Hong Kong Council of Social Service

All surveyees responded and returned their questionnaires. The survey asked about both raw and consolidated data collected. In addition, emphasis was made on the fact that the Survey is looking for regular data collection practices, not ad hoc reporting requirements. The modified ICNPO NGO classification system used by the Central Policy Unit was used in the questionnaire.

The results of the Survey are summarized in the Table attached at APPENDIX 2. The followings are some observations made of the results:

Interdepartmental coordination: No one department or organization possesses comprehensive data on NGOs in Hong Kong. Collectively, various government departments/bureaux receive a wealth of data and information from NGOs. However, there does not seem to be any coordination as to what type of information should be collected and at what frequency. Different departmens/bureaux have different data or reporting standards and forms. If a NGO is receiving funding from more than one department, it will have to submit data or report multiple times in multiple formats. The varied practices probably stem from historical reasons. Mostly when a government department asks for information from a NGO, it is either required by a statute or for some other policy reasons. If the government can standardize the data and reports to be collected among different departments, it will simplify government efforts to regulate the NGO sector and avoid duplication of efforts by the reporting NGOs. The Working Group noted that any attempt to produce a comprehensive uniform format of reporting will require substantial resources and a major commitment on the part of the Government since it will entail changes in many supporting services within various departments, such as changes to the computer systems and processing software.

Varying public availability practices : Public availability of data collected varies widely among departments. For example, the Companies Registry makes the collected data easily available to the public via the department's web site, with online viewing and download coming soon in 2005. On the other hand, the data on "societies" registered with the Police Department is only available upon specific written request. Some departments, such as the Health Department, do not provide the collected data to the public. Such differences in practice may be due to the fact that data are collected by different departments for different purposes. In addition, public disclosure of collected data involves striking a balance between transparency of data and the protection of privacy of the submitting organizations. Making the data publicly available for the purpose of public accountability probably was not a major purpose among the departments when their disclosure policies were determined. A consistent government policy giving preference to public availability and making better use of the internet (as in the case of the Companies Registry) will go a long way in facilitating the flow of information and data on NGOs in Hong Kong.

Lack of consistent intra-departmental practice : There is a lack of consistent data collection practices within the same bureau/department. For example, different divisions within the Home Affairs Bureau and Labour Department have different data collection practices and impose different reporting requirements on subvented NGOs. The public availability of such information also varies from division to division. There does not seem to be a centralized database within the bureau/department. As a matter of enhancing efficiency and improving internal sharing of data, each bureau/department could consider a consistent data collection and publication policy.

Funding organizations data collection practices: Major funding organizations collect extensive data and reports from recipient NGOs, but very little of such data or reports are made available to the public. Funding organizations seem to rely on the recipient NGOs themselves to provide the information to the public. If one or more major funding organizations can take the lead in standardizing the data and reports to be collected from recipient NGOs and making such data and reports publicly available in an easily accessible format (such as via online search), the transparency and flow of information about NGOs will be greatly enhanced.

Umbrella organization data collection practices: The Hong Kong Council of Social Service collects organizational data and annual report as well as audited financial accounts from member agencies and provides collated data analysis to the public via its web site and publication.   Information about individual member agency provided to the public on the organization's website is rather brief. More detailed information is provided in the Directory of Social Service Organizations published by the Council every 2-3 years. An umbrella organization like HKCSS could be a convenient forum for collating and disseminating information on NGO since it already possesses a fair amount of important data about member agencies and the public will naturally approach HKCSS if they have a question or would like to check out the credibility of a NGO.

3.   The Value and Impact of a Centralized NGO Database

The Working Group concluded that the achievement of improved NGO sector

data/statistics availability and if feasible, a comprehensive centralized NGO database will be beneficial to the Government, the funding organizations, the donating corporations and public, as well as the NGO community.

For the Hong Kong Government, improved statistics and data availability will enable better policy research and policy development for the sector. Also, a centralized database will simplify government efforts to regulate and supervise the NGO sector and assist the departments in better evaluating individual NGOs. With the increasing emphasis by the Government on the importance of the Third Sector, a centralized database will improve understanding of the development of the Sector and foster tripartite cooperation among the Government, the NGOs and the business sector.

For the funding organizations, the database will be a useful information resource to check out individual funding applicants. Also, the existence of such a database will likely increase transparency and accountability of the NGOs, thereby making sure the funding granted are spent with greater care and efficiency.

For the donating public and corporations, the database will be a convenient reference tool to evaluate the worthiness of an organization before donations are made.

For the NGO community, a centralized database will increase transparency and accountability of the organizations and enhance their ability to seek charitable donations. NGO internal management and their boards are frequently in need of information about the sector and benchmark data among NGOs. A centralized database will help enhance the quality of management and governance decisions made by NGO staff and boards.

The Working Group reckoned that a centralized NGO database is feasible and the resources required for its set up may only be modest. It is essential to adopt an appropriate classification system and to gain the cooperation of the NGO sector. The technical difficulty of setting up such a database is likely to be minimal, but the maintenance and updating of information therein will be the true test of the system. If an initial centralized database is set up, competitive forces will likely persuade

NGOs to voluntarily provide information to the database, thereby increasing transparency and accountability in NGO operations.

4.   Consideration of Centralized NGO Database Alternatives

The Working Group considered two international models of NGO database, namely, the United Nations Handbook on Non-Profit Institutions and its ICNPO classification system as well as the United States National Center for Charitable Statistics' GuideStar Website and its classification system, the National Taxonomy of Exempt Entities. The Working Group also considered a number of alternatives for setting up a centralized NGO database.

In considering the alternatives, consideration was given to what type of institution could best host such a centralized database. Currently, there is no institutional force to push the NGO sector into building such database. The question of who to take the lead and what strategy should be adopted in the initial set up the database will remain crucial. The issue of public availability of information was also a major issue for consideration. The following is a description of the NGO database alternatives considered by the Working Group:

Government-Led NGO Database

One alternative is to have the Government set up and run a centralized NGO database. This can be done by a statutory approach to create a legal obligation on the part of NGOs to provide certain data to the Government. However, this would likely be the least feasible and encounter significant obstacles, both in terms of the legislative process and resistance from the NGO sector.

Another approach is to rationalize the existing data collection practices among different bureaux/departments. As noted in the survey results, currently government departments are already receiving a sizable amount of NGO data, but without much coordination or sharing. With better coordination among bureaux/departments as to the types of data and reports required, it is possible to set up a mechanism to share the data and reports within the Government and with the public in general. A more

rational policy of data collection by the Government will cut down on the duplication of efforts by the bureaux/departments and by the NGOs.

The challenges of a government-led NGO database may come from both inside the Government and from the NGO sector. Rationalizing current data collection practices necessarily encroaches upon the jurisdictions of different departments and may involve a comprehensive review of existing administrative and legislative powers. This will require considerable resources and a major commitment on the part of the Government. As previously noted, the current trend is to minimize government regulation and control over NGOs. A government-led centralized database may face resistance from the NGOs as a reversal of the trend.

Charities Commission Database

Another alternative to achieve a centralized NGO database is through the establishment of a statutory, semi-public charities commission. Such a commission will be an independent regulator and registrar of charities, ensuring that registered charities are operating for the public benefit and independently of government or commercial interest. The example of the Charity Commission for England and Wales was considered.

The advantage of a centralized database maintained by a charities commission is its simplicity – NGOs need only submit one set of data/report to the commission and the public will find such data/report easily through the commission. It is important to streamline the reporting requirements currently imposed by various government departments and major funding organizations so that the existence of the commission eliminates duplication of efforts rather than aggravating the problem. Given the current social and political climate in Hong Kong, it is doubtful if the necessary support will be present to pass an enabling statute for a charities commission and to allocate the necessary resources for its implementation.

NGO-Led Database

The Working Group considered an initiative taken by a major funding organization (such as the Community Chest or the Hong Kong Jockey Club Charities Trust) or a NGO umbrella organization (such as the HKCSS) will likely be more

effective than a government led initiative. This is because such organizations already possess significant amount of data about the recipient or member NGOs and a centralized database can readily be extracted from the existing data. A database created and hosted by funding organizations or a NGO umbrella organization will likely be met with better cooperation among NGOs since it will be seen as an industry self-improvement effort rather than a regulatory effort by the government. It is also likely that the needs of and constraints faced by NGOs will be better reflected if the host organization is part of the NGO infrastructure.

The challenge of this alternative lies in whether any funding organization sees the need to set up such database. Most major funding organizations are receiving the necessary data and reports from recipient NGOs as a condition of funding. There may be little immediate incentive to expend more time and resources to set up a database that will benefit the public at large. For an umbrella organization, the issue of resources will likely be a major obstacle. For this alternative to succeed, there must be support from among the major funding organizations and within the NGO sector.

Independently Hosted Database

Another alternative is to have an independent organization, like an interested academic institution, to create and host the database. Under this approach, the host organization's first task is to build a register of NGOs containing descriptive data such as the organization's name, address, purpose, industry, classification information, financial information and other indicators of legal status, etc. Such register will probably need to be developed from scratch from a variety of sources.

The advantage of this approach is the independence of the host organization. With no fear of any hidden regulatory agenda or peer competition, NGOs will likely feel more inclined to cooperate. However, an independent host will likely face challenges relating to funding for set up and maintenance. It must also secure the cooperation from the Government since it is the main source of data. There is also a need to convince the NGO community as a whole of the necessity of the centralized database as their support in continuing to provide updated data and reports will be crucial to the success of the database.

<u>NGO Reporting Software</u>

To address the problem of a lack of uniform data reporting format, the Working Group considered the proposal to develop a software tool to facilitate application and reporting efforts by NGOs and funding allocation decisions by funding providers. The software can include descriptive data such as organizational information, activities/project information, financial information and other data that are regularly being submitted by the NGOs in the funding application process. In addition, evaluative data such as output, outcome and performance indicators can be included to facilitate the reporting of the achievement of the funded projects.

In determining the content of the data template, considerations should be given to the expectations of the donors/funding organizations regarding what information will be most useful to their funding and allocation decisions. The concern of NGOs will also need to be addressed as some information, such as salary survey and human resources information may not be considered appropriate for public disclosure. Once the software is adopted by major funding organizations, effort can be made to upload to a website the application form for easy access by NGOs and to upload the reporting information for public consumption. Such reporting software can be adapted for use by different NGO sub-sectors and can be a useful first step to a centralized NGO database.

The NGOs will likely welcome such software tool because it provides a common format for fund applications with different funding organizations. It will also facilitate efforts by funding organizations in their allocation of funds and provide a uniform tool for comparisons between competing applicants. The challenges will likely lie in finding a common template of basic data that is agreed upon by the funding organizations while flexible enough to cater for special requirements that are particular to individual funding organization.

5.   **Toward a Centralized NGO Database – The Recommendations**

The Working Group concluded that the creation of a centralized NGO database should take a gradual approach. It is advisable to start with a small database

in one or more chosen NGO sectors covering only descriptive data. Evaluative data such as service performance evaluation, output and impact assessment and other internal personnel and financial information could be added to the database at a later stage. Once the database system is operational and credibility of the system established, efforts can be made to expand the coverage of the database to other NGO sectors and to increase the type of data covered.

The Working Group recommended a two pronged approach to realize the goals of improving NGO data availability and ultimately creating a centralized database.

A NGO-led Database Effort

Currently, major funding organizations do not seem to perceive the need for setting up a centralized database since they already receive the necessary data and reports from recipient NGOs as a condition of funding. As a result, umbrella NGO organizations will likely be a more promising leader to host a centralized database. The Working Group recommended that the HKCSS be first approached to set up a centralized database in the social welfare sector.

The HKCSS already publishes a Directory of Social Service Organizations which contains descriptive data and information about their member agencies. Select financial information is being added to the Directory. Response to requests for information and data from the member agencies has been encouraging. HKCSS is considering publishing the next edition of the Directory on the internet. With appropriate funding, the Directory can be turned into a guide to create a template for a proposed database for the social welfare sector. Initially, the template can consist of descriptive data already submitted by the member agencies. A website can be set up so that the submitted information can be uploaded for easy public access. In addition, information filed by member agencies with various government departments – such as the IRD and Companies Registry can be leveraged and incorporated into the database.

At a second stage, the scope of information included in the database can be extended to cover evaluative data. The social welfare sector is particularly suited to provide such data because many subvented NGOs are already using output and other

performance indicators in reporting to the Government. Once the database is established, it can be expanded to include social welfare NGOs that are not member agencies of HKCSS and to other NGO sectors with the assistance of the related umbrella organization and Government department, e.g., the Arts Development Council and the Leisure and Cultural Services Department for the arts sector.

<u>Recommendations to the Government for Improving NGO Data Availability</u>

As the authority granting tax exempt status to eligible charitable organizations and trusts, the Inland Revenue Department (the "IRD") will likely be most effective in imposing data disclosure requirements on NGOs. Currently the IRD receives data and information from NGOs when they first apply for tax exemption and upon tax exempt status review which is conducted approximately every 4 years. It is recommended that the IRD consider making public disclosure of certain data/information a condition for tax exemption. Imposing such disclosure requirements is justified because the Government is foregoing public income in the form tax exemption. The public has a right to know that the exempt organizations are indeed doing charitable works that they claim to do. It is also recommended that the IRD consider enhancing the oversight of the tax exempt organizations by increasing the frequency of tax exempt status review.

As the Government's designated agency for interfacing with the Third Sector, the Home Affairs Bureau can be a leader in initiating changes within the Government regarding NGO data and reporting practices. The Working Group understood that if the community shows increasing interest and support in more public accountability among the NGO sector, the HAB will be in a stronger position to advocate changes in this respect. It is recommended that close contact and cooperation be maintained with the HAB in the implementation of the Report's recommendations.

IV.   TOWARDS A UNIFIED NGO SOCIAL AUDITING SYSTEM

1.   Current NGO Accountability Practices

The Working Group on NGO Social Auditing reviewed a brief description of five different accountability mechanisms, including (1) reports and disclosure

statements, (2) performance assessments and evaluations, (3) participation, (4) self-regulation, and (5) social audits. Broadly speaking, the first two types of accountability mechanism are adopted mostly for reporting to funding providers. While the third type (participation) is meant to involve the public in the accountability process, this mechanism is not widely used. In the pursuit of NGO accountability to the public, the last two mechanisms on promoting self-regulation and social auditing are the most relevant.

Disclosure statements and reports and performance assessment

At present, reports and disclosure statements as well as performance assessments and evaluations are the most widely used accountability mechanisms in Hong Kong. NGOs are usually required to undertake comprehensive evaluation and reporting for fulfilling the funding provider's requirements. There is no uniform reporting standards and the scope and nature of the reports and assessments vary widely among different funding providers.   The lack of uniform platform for reporting and assessment increases the cost of compliance by the NGOs. The reports prepared by NGOs to funding providers (including relevant government departments) are generally not available to the public in a systematic manner. Hence as a tool for public accountability, disclosure statements and reports by NGOs are rather inadequate. Some NGOs will voluntarily disclose information about their organizations and services through publications or websites. However, such disclosure efforts are mostly limited to larger NGOs with adequate resources.

Participation

Participation refers to an ongoing process by which a NGO involves the participation of the community in a project or program. Participation can operate in different levels: (1) information about a proposed project is made available to the public through public meetings, hearings or surveys; (2) public involvement in actual project activities; (3) community participates in the negotiation over decision making concerning the project; and (4) community's own initiative creates project or program independent of any NGO or government sponsorship. Such participation mechanisms are rarely used in Hong Kong, except perhaps occasionally under (1) and (2) above.

<u>Self-regulation</u>

Self-regulation refers to the efforts by NGOs or a nonprofit network (or sub-sector) to develop standards or code of behavior and performance. Additional measures such as ombudsman and accreditation are sometimes used. Self-regulation helps to build the public image of a NGO sub-sector and to enhance performance of individual NGOs. There have been limited efforts of self-regulation in the NGO sector in Hong Kong so far. Two examples are the voluntary Reference Guide for Charities on Best Practices for Fund-raising Activities published by the Social Welfare Department ("SWD") and the Pledge on Donors' Rights developed by the HKCSS.

In 2003, in response to calls for better transparency and accountability in the raising and disposal of funds for charitable purposes, the SWD proposed the adoption of a voluntary system of accountability. A Reference Guide for Charities on Best Practices for Fund-raising Activities (the "Reference Guide") was proposed to provide guidance to NGOs in the areas of donors' rights, fund-raising practices and accounting/auditing requirements. It was proposed that NGOs which voluntarily agree to comply with the Reference Guide may apply to have their names included in a Public Register to be maintained by the Department and posted on their website for public information. Under the proposal, the SWD will not actively enforce the provisions of the Reference Guide, but will only remove a NGO's name from the Public Register upon receiving substantiated complaint about a violation. In October 2004, the SWD published a final version of the Reference Guide and asked major non profit organizations to adopt it on a voluntary basis. No further mention was made of the proposed Public Register, which presumably had been abandoned. The Reference Guide, however, is not universally accepted by NGOs. Smaller agencies found some of its requirements, such as fundraising expenditure ratio, too cumbersome and impossible to achieve. Since compliance with the Reference Guide is voluntary and there has been little publicity among the donating public about the Guide, there is little incentive for the NGOs to sign on.

While the Reference Guide is a government initiated "self-regulatory" mechanism, a sector wide self-regulatory effort was made by the Hong Kong Council of Social Service in their Pledge on Donors' Rights (the "Pledge"). The Pledge aims

to protect the reasonable and appropriate rights of donors, and to promote fundraising accountability as well as financial transparency among social service agencies. HKCSS members who agree to abide by the Pledge may apply to have their names listed on the List of Participating Members which is posted on the HKCSS website. The HKCSS will not actively monitor the compliance of the participating members and will only consider removing a member's name from the List if substantiated complaints are received. The Pledge is designed for voluntary participation and its requirements are rather basic. The Pledge was promoted among HKCSS' member agencies first. It is hoped that the Pledge can raise the profile of the welfare sector as a whole and gradually achieve wider participation in due course. Of the over 200 member agencies of the HKCSS, about half have chosen to sign on to the Pledge. Many of the member agencies see the Pledge as a positive means to promote fundraising. The major difficulty encountered by the agencies is the lack of resources. For some, especially smaller self help organizations, the Pledge, in its present form, poses rather high administrative hurdle.

Social Auditing

Social Auditing refers to a process through which a NGO assesses, reports and improves upon its social performance and ethical behavior, especially through stakeholder dialogue. It is a complex process that integrates elements of many different accountability mechanisms. The main social auditing models emphasize five key elements of the process: stakeholder identification, stakeholder dialogue, use of accreditation or benchmarks, continuous improvements, and public disclosure.

The most significant challenge facing a NGO attempting to adopt social audit as an accountability tool is the cost involved. The social audit process requires substantial time and financial commitment, which are especially lacking in small NGOs. An additional concern is the inherent uncertainty of the process. With the involvement of various stakeholders in the audit process, the NGO management has less control over the outcome of the assessments and benchmarking, as well as the amount and type of information made available to the public. Lastly, the lack of uniform externally verifiable standards for auditing may pose an additional challenge.

There have been sporadic attempts to institute external and internal social auditing practices among the NGO sector in Hong Kong. For example, in the elderly residential services area, consultants were engaged by the Government to develop a system of external accreditation. However, the cost of compliance is rather high and such external accreditation system is still largely nonexistent in the other areas of NGO sector. The Management Audit System Manual developed by the HKCSS (with the help of external consultants and drawing reference to the Global Reporting Initiative) is an example of internal social auditing practice aiming to improve internal auditing and management to achieve a higher level of accountability.

2. The Value of and the Need for a Unified Social Auditing System

The Working Group noted that the benefits of social auditing to a NGO can be manifold. First, the external accreditation of a NGO enhances its public reputation and consequently helps in its fundraising. It also allows the public to have easier access to accurate information about an NGO, resulting in greater public confidence in charitable donation. For example, even though membership in the Community Chest is only an unofficial accreditation, it greatly enhances the credibility and recognition of the members and the Community Chest members are among the most successful public fundraising NGOs in Hong Kong. An external social audit system may be especially helpful to small and medium NGOs that are not receiving funding from the Government or major institutional private donors.

Second, social auditing is also a useful tool of accountability, allowing views of various stakeholders, including the public and service recipients, to be considered in the development of performance indicators and organizational goals. An external system of accreditation can help increase the transparency of NGO operations and finances and encourage better corporate governance and accountability of the NGOs.

Third, an external social auditing accreditation is an expression of recognition and a powerful motivational force to the NGO and its staff. Many NGOs are looking for international accreditation such as an ISO accreditation. However, they often find such accreditation too costly in terms of time and money. If a local accreditation system administered by a credible issuer is in place, it will provide a significant boost

to the need for recognition by the NGO and offer the internal management a means of monitoring performance.

Currently the NGO sector depends heavily on the Government and major private institutional donors for funding, the need to institute a social auditing system to enhance public accountability may not seem immediate. However, consideration should be given to promoting more public/community donations. A healthy NGO sector should see a diversification of funding, preferably with sizable public donations. The increase in public donation will cut down the reliance of the NGO sector on the Government, thereby giving the NGOs more flexibility in their services and relieving some of the fiscal pressure on the Government. In addition, since the Government is the major funding provider for NGOs, the public needs to have confidence that their funds are being properly used. Many NGOs are also given tax exempt status by the Government as a privilege, consequently they should to a certain extent be held accountable to the public for their activities.

The Working Group noted the need for a social auditing system will likely vary among different NGOs and donors. Small or medium size NGOs which do not receive regular funding from the Government or major institutional donors will likely benefit more from the fundraising potential of some form of social auditing mechanism, such as a code of ethics or external accreditation. Big institutional donors tend to have their own professional systems of assessing funding applicants; therefore, the need for any additional social auditing mechanism is not immediate. But for individual public donors, they will likely find a social auditing system useful in providing the necessary information about a target NGO and improving their confidence in making donations.

3.   <u>Consideration of Social Auditing Options and International Models</u>

The Working Group examined several options in creating a social auditing mechanism. The options and the Working Group's deliberations are set out below:

<u>Charities Commission</u>

One option to enhance social auditing of NGOs is through the establishment of a statutory, semi-public charities commission. Such a commission will be an independent regulator and registrar of charitable NGOs, ensuring that registered charities are operating for the public benefit. The Working Group considered the example of the Charity Commission for England and Wales. It was established by law and has the responsibilities of regulating charities in order to increase charities' efficiency and effectiveness and public confidence and trust in them. The Commission's principal roles include registration, oversight, public information and facilitation.

The advantage of a charities commission that is backed by a statute is its all encompassing nature - covering important accountability areas, such as registration, oversight, and public disclosure. The commission can be an effective social auditing mechanism, protecting rights of the donating public, the service recipients and the government. For NGOs, registration with the commission and compliance with its reporting requirements help build up their credibility and in turn assist in fundraising. This may be especially important for medium and small NGOs that do not have a consistent source of funding and have to rely on public donations. The oversight function of a charities commission will also force the NGOs to improve internal management and governance to avoid intervention by the commission.

To create a charities commission, an enabling statute must be passed by the legislature and accompanying resources must be allocated. The uncertainty lies in whether under the present social and political climate in Hong Kong, the legislature sees the need for such a statutory approach and whether the necessary resources are available to fund its set up.

<u>Government-led Social Auditing Efforts</u>

As the major funding provider and the primary regulator of fundraising activities and corporate formation, the Government has the potential of imposing some consistent accountability requirements on the NGOs in Hong Kong. Currently, regulation of NGOs mainly stems from three sources: legal status registration, subvention, and fundraising regulation.

NGOs that take the legal corporate form as companies limited by guarantee are required to register with the Companies Registry. NGOs that take the form as a society will register with the Police Department under the Societies Ordinance. Finally NGOs that desire a tax exempt status will register with the Inland Revenue Department as tax exempt charities and trusts. Each of the three departments has different registration and reporting requirements even though there may be some overlapping of information collected. On the subvention side, various government departments are involved. Each department has their own subvention guidelines and reporting requirements. For fundraising regulation, there is no specific legislation that controls charitable fundraising activities. However, a number of departments have some type of regulatory authority over charitable fundraising, including the IRD, SWD and the Television and Entertainment Licensing Authority.

Collectively, various government departments/bureaux have various regulatory authorities over and receive a significant amount of data and reports from NGOs. However, there does not seem to be any coordination as to the reporting, funding and fundraising requirements. If the Government can devise a consistent interdepartmental policy that standardizes such requirements, it can serve very useful social auditing functions. For example, the policy may, among other things, impose (i) financial reporting and auditing requirements regarding subvented funds; (ii) internal management and governance guidelines (e.g. independent board of directors and board meeting requirements); (iii) public disclosure requirements; and (iv) fundraising guidelines. Outside of such interdepartmental policy, each department may add other requirements that address their specific concerns and needs.

The benefit of Government-led social auditing efforts is the universal applicability and the likelihood of compliance. Since the Government is the biggest

funding provider, subvented NGOs have much incentive to comply with the requirements. Having a consistent interdepartmental policy may help minimize duplication of reporting by NGOs to different departments, thereby enhancing efficiency of the system.

The challenges of devising standardized Government reporting, funding and fundraising requirements may come from both inside the Government and from the NGO sector. Achieving a uniform policy necessarily requires a comprehensive review of existing administrative and legislative powers exercised by the departments and a major financial commitment on the part of the Government. A centralized policy may face resistance from the NGOs as it may be seen as an attempt to further regulate the NGO sector. NGOs may also feel that the Government may not be able to fully understand their needs and constraints. The Working Group felt that unless there is strong demand in the community to require government action, relying on governmental interference would probably be the least preferable way of enhancing public accountability in the NGO sector.

NGO Self Regulation – The Credibility Alliance

The Working Group considered the example of the Credibility Alliance (CA) in India in building a self-regulatory accountability system. The CA is a consortium of voluntary organizations and networks, which has come together to enhance good governance and further the sector's public credibility. The aim of the CA is to devise a self regulatory mechanism that enhances the accountability and transparency of the NGO sector in India based upon the principles of self certification and voluntary disclosure. Specifically, the CA developed two accountability tools: the Transparency Profile, for voluntary disclosure of information; and an Accreditation System, based on verification of NGO performance against CA's standards of good governance. If a NGO wants to become a member of the CA, it must comply with the good governance standards through self certification and a desk review of documents. The hope is that the standards set by the two documents will gain growing acceptance among the NGOs in India.

The Working Group saw self regulation as the best option for enhancing NGO sector public accountability in the short run. The advantage of a sector wide self

regulatory system is its voluntary and participatory nature. NGOs are more likely to accept a system that emerges from within the sector rather than in the form of compulsory regulation. With NGO participation, it is easier to achieve consensus as to the appropriate standards to be adopted.   The biggest obstacle probably lies in the initial creation of the self regulatory mechanism and the need to obtain a critical mass of support from the NGOs to make it a feasible long term endeavour.   In Hong Kong there have been limited self regulatory attempts within the NGO sector and from the Government in the form of the Pledge and the Reference Guide. Any further attempt of self regulation should build on the experience of the SWD and HKCSS.

External Accreditation

External accreditation has been adopted in many countries, even though there have only been sporadic attempts in Hong Kong to create such a system for NGOs. The Working Group considered the example of the accreditation system adopted by Better Business Bureau Wise Giving Alliance (the "Alliance") in the United States. The Alliance launched an accreditation system using a National Charity Seal. The objective of the programme is to offer a highly visible accountability tool that will help inform donors, assist charities in establishing their commitment to ethical practices, and encourage greater confidence in giving. Participation by NGO is entirely voluntary. To qualify for use of the Charity Seal, a national charity must be found by the Alliance to meet its Standards for Charity Accountability, signs a licensing agreement and pays an annual fee. The Standards consists of 20 separate requirements in the areas of governance and oversight, measuring effectiveness, finances, and fundraising and informational materials.   Participating national charities are required to submit a variety of support documents and related information for the Alliance to evaluate its compliance with the Standards.   In addition, the Alliance collects and distributes information on hundreds of NGOs through the Charity Reports system which is available online. The goal of the charity report is to serve donors' information needs and also help donors to make their own decisions regarding charitable giving.

The Working Group concluded that an external accreditation system similar to the Charity Seal programme will be beneficial to the NGO sector in Hong Kong, especially to small and medium NGOs that are not receiving funding from the

Government or major institutional private donors. However, its implementation will likely take time. Apart from finding the right host organization to implement such system, the necessary time and financial commitments will be substantial in terms of the set up and maintenance of the accreditation system. The development of a set of charity accountability standards also requires extensive consultation within the NGO sector so that the resulting standards will be widely acceptable.

4.   Creating A Unified NGO Social Auditing System – A Recommendation

The Working Group concluded that for a social auditing mechanism to achieve the desired benefits, it is important to properly define its scope, form and objective.   In addition, any social auditing mechanism should preferably be implemented on a voluntary basis through a combination of self regulation effort within the NGO sector and the installation of an external accreditation system. Hence, it is recommended that the proposed social auditing mechanism be implemented in stages.

First, a common set of standards for accountability should be agreed upon. References can be made to the SWD's Reference Guidelines, the HKCSS' Pledge and the US Wise Foundation's Standards for Charity Accountability. As a start, the standards should include certain guidelines on voluntary information disclosure by NGOs. Such disclosure should aim to provide essential information for the individual public donor to make an informed donation decision. However, the standards cannot be too complicated; otherwise the administrative cost involved will be prohibitive to many smaller NGOs which could benefit the most. In addition, a donor survey may be done to gauge the views of major funding organizations/trusts, donating corporations and individual donors on what they think are important accountability standards for NGOs. Once the standards for accountability is set and published, the next step is to invite interested NGOs to pledge to comply with the standards. A compliance period of 2-3 years can be given.

In the second stage, after the expiry of the compliance period, the NGOs could be invited to conduct self assessment and self-certification. Once a NGO self certifies to have complied with the standards, it can apply to become a member of the system.

Results of the assessment and certification can be published in a standard format with wide public availability, through publication or website. Investigation can be made if there are complaints about non compliance.

Finally, after the NGOs and the public have developed confidence and trust in the system, an external accreditation element can be added under which an NGO's compliance and performance will be assessed either through a desk review or professional on site inspection. A quality-mark like accreditation tool similar to the National Charity Seal in the U.S. can be introduced. Such accreditation system must not be too complicated or too costly to comply. The emphasis of the system should be to build the "brand and image" of the participating organizations, especially small and medium size NGOs.

Throughout the development and implementation of the social auditing system, public education about the rights of a donor and the accountability standards is crucial. Once the public realizes the importance of holding NGOs accountable and relies on the system to discern accountable NGOs, competitive pressure will encourage the NGOs to improve their performance and accountability standards.

The Working Group further recommended that a Steering Committee be set up to take the lead in developing the system. The Committee should preferably include representatives from (1) major funding organizations, such as the HK Jockey Club Charities Trust, Community Chest, and the SWD, etc.; (2) major NGO umbrella organizations, such as the HKCSS and the Arts Development Council; (3) independent interested parties such as the Asia Foundation and the CCSG; (4) professional bodies, such as the Hong Kong Institute of Certified Public Accountants, the Law Society, the Institute of Directors; and (5) individual donors who are interested. Participation by independent parties and major donors will be desirable as it would increase the credibility of the system and ensure higher participation rate by NGOs.

V. THE WAY FORWARD

The Task Force will seek funding support from major funding organizations to pursue the recommendations of the two Working Groups. As a first step, a focus group will be formed to further discuss cooperation opportunities with the HKCSS to implement the recommendation of the Working Group on NGO Statistics regarding turning the Directory of Social Service Organizations into a prototype NGO database. Efforts will be made to contact the relevant government departments to discuss the findings of the Task Force and the resulting recommendations.

On the social auditing front, the focus group will prepare a draft proposal of accountability standards and a presentation on the proposed social auditing mechanism. Presentations on the recommendations will be made to major funding organizations, NGO umbrella organizations, relevant government departments to generate interest and support in the proposed system. A Steering Committee will then be formed to pursue further funding support for implementation of the proposals.

Finally, the Task Force also noted that the Central Policy Unit has completed a survey of the NGO sector recently and a total count of over 9,300 active NGOs have been identified. A copy of this Report will be submitted to the CPU for information. It is necessary to explore what further steps will be taken by the Central Policy Unit on NGO sector research and whether the development of a centralized NGO database and a social auditing system are subjects under their consideration.

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